

News & Commentary

Dell shares fall despite profit jump as margins disappoint; PC maker expects 'normal' seasonality but says corporate demand is returning

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571 words

21 May 2010

16:09

[MarketWatch](#)

MRKWC

English

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Shares of **Dell** fall sharply as the computer maker affirms the view of a rebounding market, but disappoints Wall Street with its weaker-than-expected gross margins.

SAN FRANCISCO (MarketWatch) -- Shares of **Dell Inc.** fell sharply Friday as the computer maker affirmed the view of a rebounding market, but disappointed Wall Street with its weaker-than-expected gross margins.

Dell (DELL, US) shares dropped 6.8% to close at \$13.35, as analysts cited the company's results as another proof point of improving demand, particularly in the corporate sector.

But the company's gross margin drew much of the attention.

"Riding a corporate PC recovery if not for those pesky gross margins," Caris & Co. analyst Robert Cihra wrote in a note to clients.

This view was echoed by others.

"Gross margin came in at 17.6%, below expectations of 17.9%, despite a favorable enterprise mix where it looks like **Dell** got hit harder on rising component costs than Apple (AAPL, US) and Hewlett-Packard (HPQ, US)," Kaufman Bros. analyst Shaw Wu said in a note.

He added: "As we have said before, the reality is that **Dell** has a much less diverse business model and thus much less room to maneuver."

Needham analyst Richard Kugele offered a more upbeat view, saying in a note that **Dell** posted "respectable" results when accounting for "global macro-headwinds." The results were driven by strong PC, server and storage growth.

"While some may have expected a better gross margin performance, on balance it was a solid report with positive indications for the broader PC and IT world," he wrote. "While **Dell** was afforded numerous opportunities to lament on our

[apparently] impending doom from the Old World, they remained steadfast in its positive stance on refreshes in PCs and storage/server infrastructure in the second half of 2010."

Dell reported a fiscal first-quarter profit of \$441 million, or 22 cents a share, compared with a profit of \$290 million, or 15 cents a share, for the year-earlier period. Revenue rose to \$14.9 billion from \$12.3 billion for the same quarter the previous year. Adjusted income was 30 cents a share.

Analysts had expected the company to report earnings of 26 cents a share, on revenue of \$14.3 billion, according to a consensus survey by FactSet Research.

In a statement, the company said it "is seeing the early stages of a corporate IT refresh."

"Commercial demand continued to build in the first quarter and **Dell** is optimistic the trend will continue throughout the year," the company said.

But **Dell** also added, "The second quarter and the first part of the third quarter typically experience slower demand from larger commercial customers in the U.S. and Europe. Overall, **Dell** expects a normal, seasonal sequential demand pick-up in the low single digits in its second quarter."

The company also said it anticipates "some components to remain in tight supply for the next couple quarters and some volatility in global currencies."

Shares of Dell fall sharply as the computer maker affirms the view of a rebounding market, but disappoints Wall Street with its weaker-than-expected gross margins.|103

Dell Shares Fall As Margins Disappoint

By Benjamin Pimentel

504 words

21 May 2010

13:22

[Dow Jones Business News](#)

DJON

English

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Shares of **Dell Inc.** (**DELL**) fell Friday as the computer maker affirmed the view of a rebounding market, but disappointed Wall Street with its weaker-than-expected gross margins.

Shares were recently down 6% at \$13.46 in afternoon trade.

Dell shares dropped roughly 6% to \$13.50 at the opening bell, as analysts cited the company's results as another proof point of improving demand, particularly in the corporate sector.

But the company's gross margin again drew much of the attention.

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This view was echoed by others.

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